



Focusing on new
opportunities



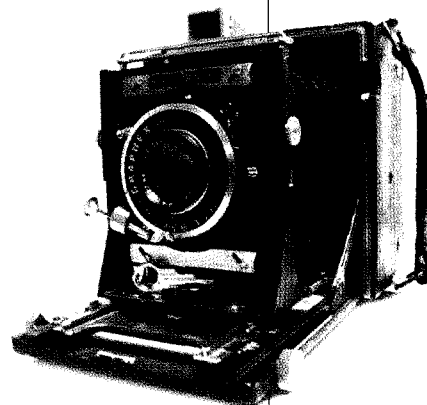
ANNUAL REPORT 2005 - 2006



Zooming into a golden future

It has been a truly remarkable year for UBHL..

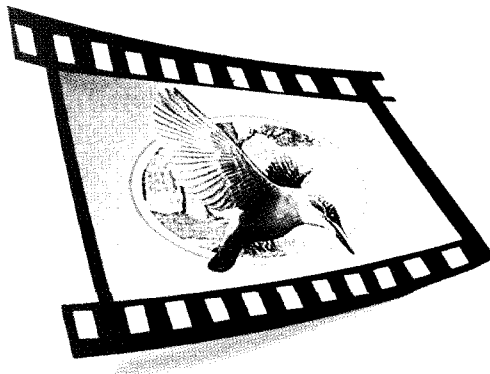
- ▶ Kingfisher Airlines completed one year of successful operations winning national and international awards *en route*.
- ▶ Mangalore Chemicals & Fertilizers created history of sorts - breaking the Rs. 1000 crore barrier in turnover and declaring its first ever dividend after the UB takeover.
- ▶ UB Global continued to make waves in overseas markets.
- ▶ UB CITY is nearing completion.
- ▶ UB Engineering achieved the coveted ISO 9001:2000 certification and bagged several prestigious projects.
- ▶ VMSRF is taking giant strides in biotech
- ▶ Investments in Beer and Spirits are reporting unprecedented growth... all of which augurs a golden future for UBHL..



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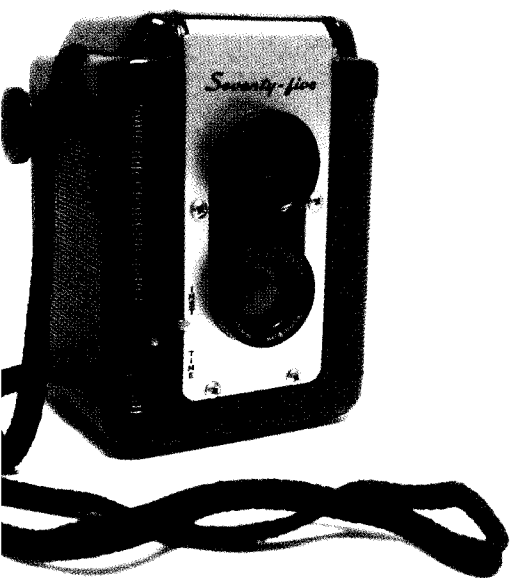
Snapshots

In keeping with the UB Group's record of successful forays into business areas that have been calculated to generate revenue consistently, UBHL is all set to open a whole new chapter in your company's profitability.



United Breweries Limited

The tie-up between Scottish & Newcastle and UBL has strengthened the leadership position that UBL holds in a fast growing market of enormous potential. Currently, per capita consumption of beer in India is around 0.7 lt per annum. While the industry grew by 14 per cent last year, UB itself grew 18 per cent. UB has over 50 per cent market share of this burgeoning market. Its largest selling brand, Kingfisher commands a 40 per cent market share among all the beer brands in the country. Profits after tax for the year grew by 38% to Rs. 19.4 crore.



McDowell & Company Limited

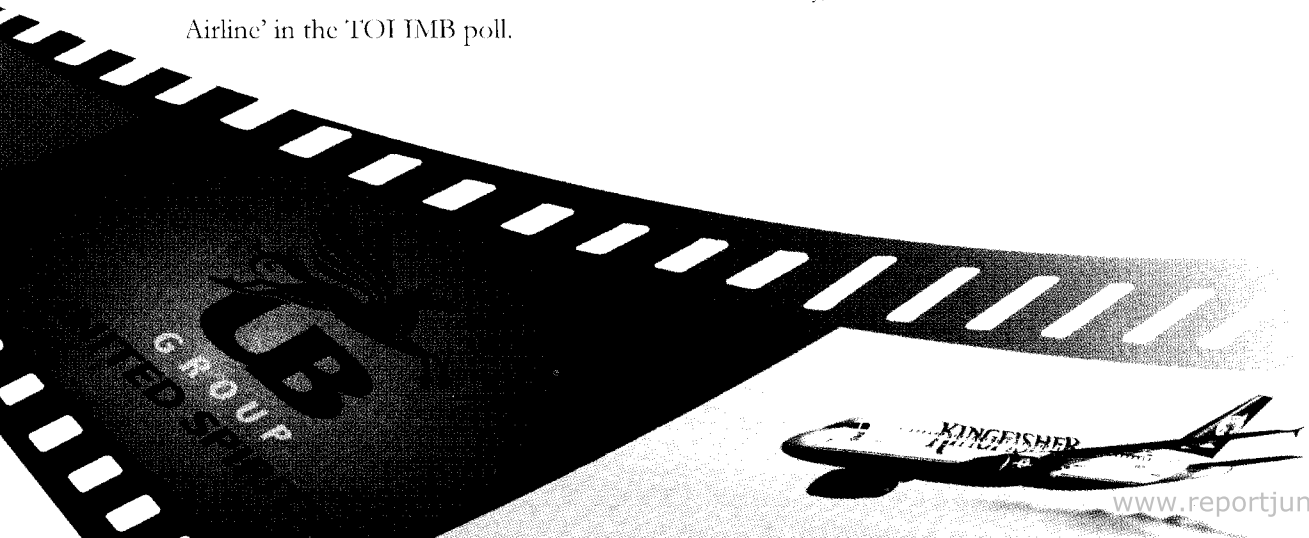
(To be rechristened as United Spirits Limited)

The consolidation of various spirits companies such as Herbertsons Limited, Shaw Wallace Distilleries Limited, Triumph Distillers & Vintners Limited and other companies as per the scheme into McDowell & Company Limited has been sanctioned by the courts. Post merger, McDowell & Company Limited will be renamed as United Spirits Limited (USL).

USL, the 3rd largest spirits company in the world is the market leader in India across all flavours and most price points. A combination of the results of the above companies for FY 06 indicates that USL's sales from its 145 brands have been 59.20 million cases as compared to 56.10 million cases during FY 05. On an aggregate basis, the turnover of USL stands at Rs.2210 crore with an EBITDA of Rs.280 crore for the liquor business.

Kingfisher Airlines

Starting with 4 flights a day on May 9th 2005, Kingfisher Airlines now flies 104 flights a day connecting 16 destinations. It has acquired a fleet of 17 aircraft in just one year setting one of the fastest induction records in the world. Among the accolades it has won are: The 'Best New Airline of the Year' award in the Asia-Pacific and Middle East region, the 3rd Most Successful Brand Launch of the Year 2005, the 7th Buzziest Brand of 2005, the 'Service Excellence for a New Airline' award, the 'Best New Domestic Airline for Excellent Services and Cuisine' award and more recently, the 'Best Airline' in the TOI IMB poll.



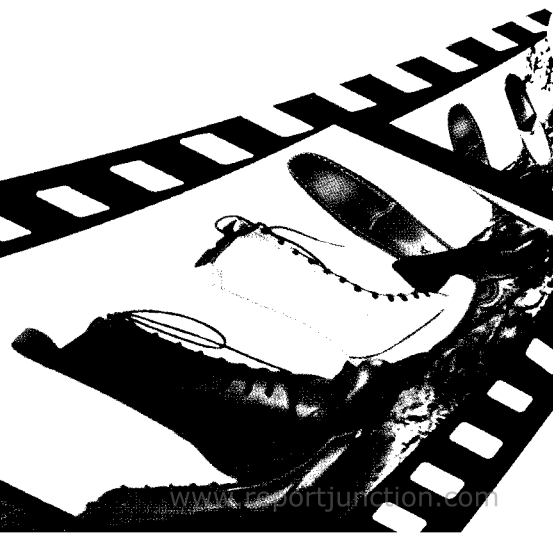
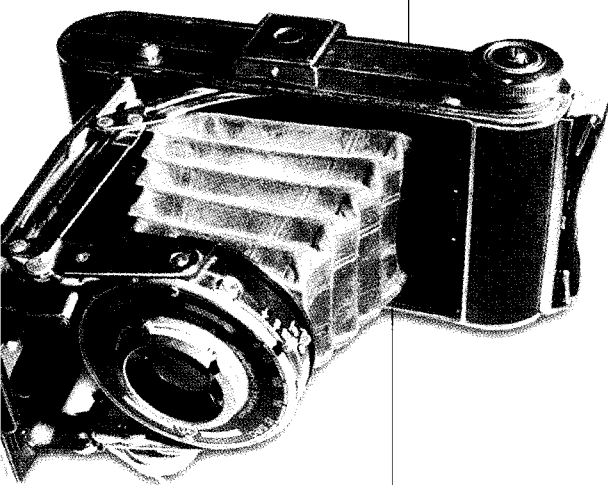
Mangalore Chemicals & Fertilizers Limited crosses Rs. 1000 Crore turnover

MCF reported its highest ever production and sales of urea and declared its maiden dividend of 6% after UB takeover. The UB Group rescued the Company, at a time when it was incurring huge losses and was subsequently referred to BIFR. In a remarkable turnaround, the Company has been making profits continuously since 1996-97 and came out of the purview of BIFR fully in 2002.

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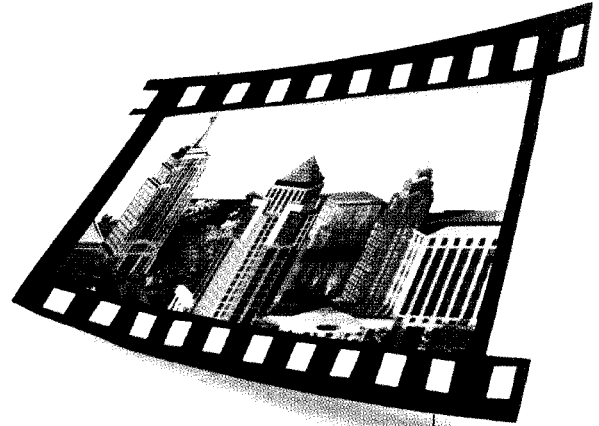
UB Global - on a global high

North Korea, Scandinavia, Panama, Africa, Latin America, Thailand, Australia, Japan, Singapore... the world is the canvas for its beverage alcohol and processed foods businesses. Footwear exports too crossed expected volumes.



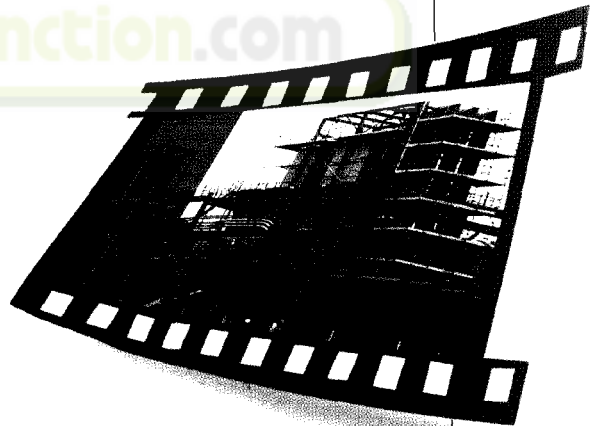
UB CITY

UB CITY, in the heart of Bangalore is fast nearing completion. This Internet ready, intelligent complex covers ten acres. Only three acres will be devoted to the development of the ideal workspace within five medium and high rise towers, the rest will be home to refreshing greenescapes to complement the adjacent Cubbon Park.



UB Engineering Limited

UB Engineering Limited is one of the leading Indian engineering companies, specialising in the erection and installation of industrial plants. The company is strongly focused on the Turnkey Division for projects in Power, Fertilizers, Oil & Gas, Fire Fighting, Effluent Treatment, Agrotech and other sectors from concept to commissioning, on-site fabrication, installation, overhauling and maintenance. The company has recently bagged a prestigious project in the Middle East.



Chairman's Statement

Dear Shareholders,

It has been another excellent year for our company in more ways than one. Spanning all our lines of business and investments, performance has been uniformly satisfactory, setting the stage for an extended period of steady growth ahead of us.

The success of our company is measurable by the steady increase in our market capitalization, which has grown almost as dramatically as the Bangalore skyline over UB CITY. We have marked the occasion with a bonus issue in the ratio of 1:1 and a cash dividend after an extended period of time.

Friends, the primary role of United Breweries [Holdings] Limited is to promote and incubate companies to which we bring both financial and management resources, so as to grow these investments as quickly as possible, to profitable leadership in their respective lines of business.

Many of you will remember, the time, not so long ago when UB was a multi divisional conglomerate with interests in many different lines of business. Over the last several years, you would have noticed a distinctive shift away from this approach in favour of greater focus. We have chosen to remain and invest resources in business where we have not only clear market leadership domestically, but also a global relevance. We pride ourselves on being a consumer goods company, with expertise in building lasting brands. With this philosophy, we have sharpened our vision and focused our resources in three major sectors, viz., Brewing, Spirits and most recently, Aviation.

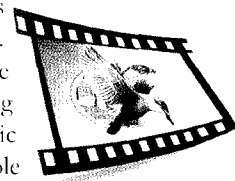
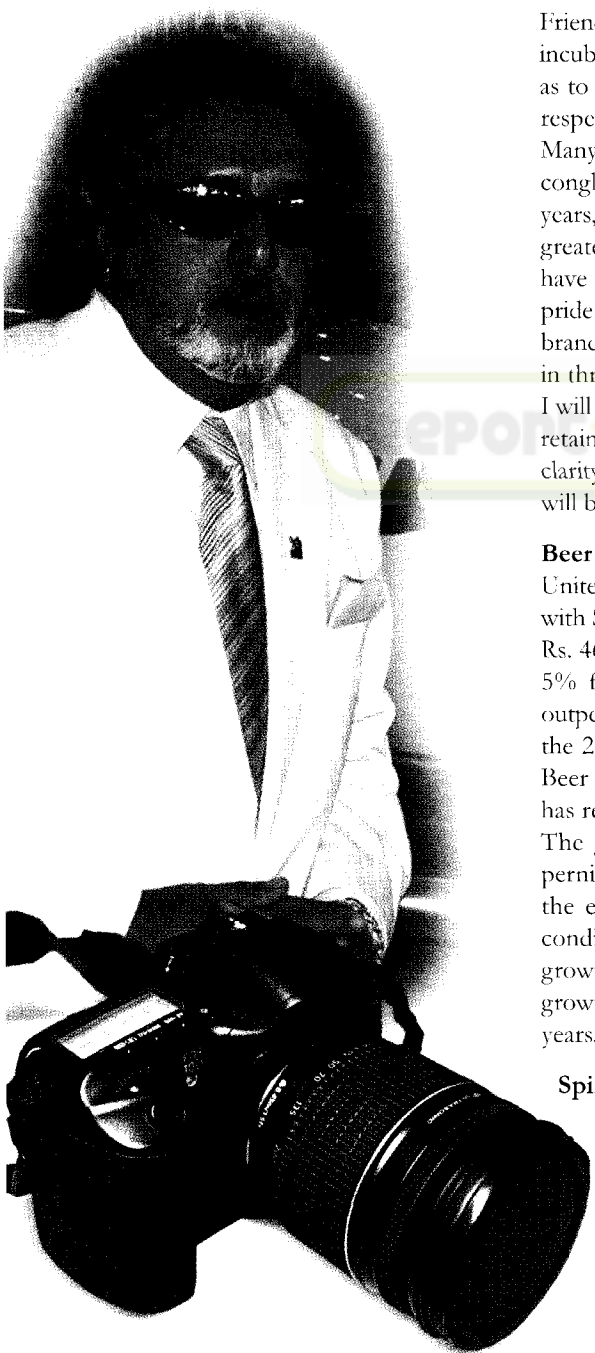
I will summarize our position in each of these focused segments. We have of course, retained some of the traditional businesses such as fertilizer and engineering, awaiting clarity of the regulatory environment, following which future plans of these companies will be chalked out.

Beer

United Breweries has gone from strength to strength during a year, which commenced with Scottish & Newcastle cementing the joint venture and consequent induction of Rs. 464 crores into the company. In a market that grew at an average rate of 5% for Lager beer and 11% for strong beer our company has significantly outperformed, gaining 50% market share in the process. Kingfisher Lager has crossed the 20 million case mark and Kingfisher Strong has become India's leading Strong Beer during the year. Aggressive growth and close watch on costs has resulted in United Breweries increasing profit margins by 245%. The gradual beginning of deregulation with the break-up of the pernicious "thekedari" system has resulted in explosive growth during the early part of the current financial year. Improving economic conditions and the demographic imperatives will ensure sustainable growth for many years to come. To take advantage of this energizing growth, our company plans to make significant growth in capacity over the next few years.

Spirits

It has been a watershed year for our Spirits Division post the spate of acquisitions including Shaw Wallace, and the remnant shares of Herbertsons and Triumph. The management integration of the business has gone extremely well thanks to close attention to detail and professional management of the process. I am pleased to report to you that respective High Courts have granted permission to complete the legal consolidation of all the spirits companies



of the group into McDowells to create United Spirits Ltd. The market cap of United Spirits has crossed the US\$ 1 billion mark on a normative basis.

The business is growing strongly and the company has drawn up a three year strategic plan which envisages continuous improvement of profitability, growing "premiumness" of our product offerings and the opening of new lines of activity such as exports and wines.

Airlines

Kingfisher Airlines is our newest venture and all of you who have experienced the service would recognize that this company is re-writing the book on service levels in the aviation industry, not just in India but with plenty of international recognition and accolades as well.

We have brought to bear on this business, our deep insights into consumer behaviour and needs, helping us to create a product, which truly sets new standards. With 17 aircraft performing 104 flights a day in 15 months since commencement of operations, I believe that Kingfisher has got off to an aggressive start which is well placed to take us forward to market leadership in the coming years.

Kingfisher Airlines is expected to break even by FY 07-08. However, the airline is well respected and consequently able to lineup funding required to meet all its requirements till that time.

Fertilizers

Mangalore Chemicals & Fertilizers Ltd has had another productive and successful year having produced 4 lakh tonnes of urea and 1.94 lakh tonnes of DAP. From a situation of heavy losses and extensive debts at the time that the UB Group acquired it, this company has now been making profits for the last several years and is now debt free. We at UB are proud of this turn around and the active contribution that MCF makes to farm production in Karnataka. MCF also rewarded its shareholders with the declaration of a dividend

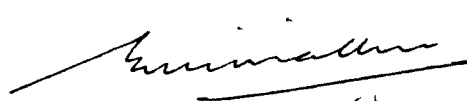
for the first time in 18 years.

UB CITY

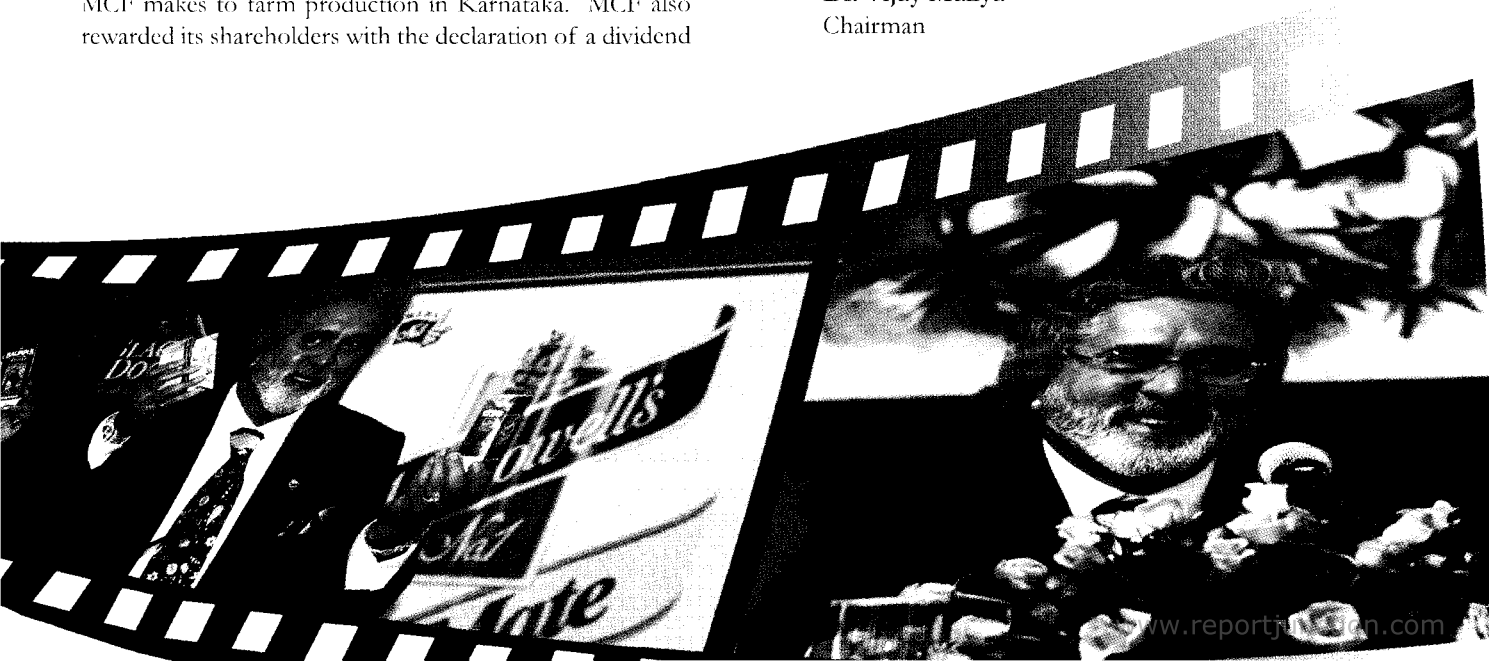
UB CITY is rising fast in the heart of Bangalore, reshaping forever the skyline of the city. Located, as it is, on one of the most valuable pieces of real estate in Bangalore, the one million plus sq ft multi use development comprising a luxury hotel, high tech commercial space and super premium shopping mall will create a landmark in the city. Occupation will commence by the end of the current FY and the entire project will be completed by autumn 2007. Renting of our share of the developed premises will generate a recurring and healthy cash flow.

From the foregoing, you will see that our company is on the verge of cashing in on the growth that will accrue from our high quality products, brands and exceptional service levels, addressing needs of a resurgent India, where the youthful population will contribute not only to rapid economic growth, but also to a significant expansion in consumption. The UB Group's family of products and services, anticipate and cater to these needs and I truly believe, my friends, THE GOOD TIMES WILL CONTINUE TO ROLL!

This leaves me with a very pleasant duty of recording my appreciation and the appreciation of my colleagues on the Board, to all for having contributed to this happy state of affairs, including staff, managers, suppliers, customers, financial partners and above all, you, my dear shareholders.



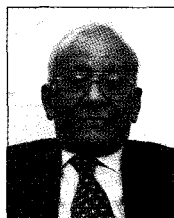
Dr. Vijay Mallya
Chairman



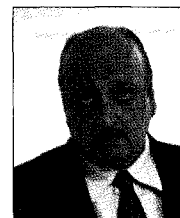
Board of Directors



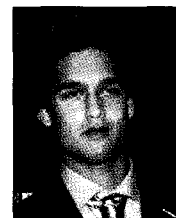
Dr. Vijay Mallya
Chairman



N. Srinivasan



Shrikant G. Ruparel



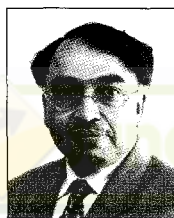
Sidhartha Mallya



B. S. Patil



Piyush Mankad



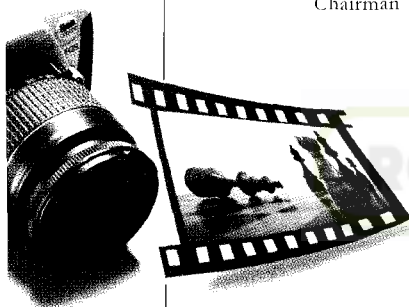
A. Harish Bhat
Exec. Vice President Finance-
The UB Group



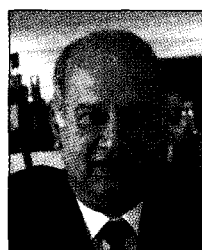
P.A. Murali
Exec. Vice President & CFO
Spirits Division



R.N. Pillai
Managing Director



The Team



Subhash R. Gupte
Executive Vice Chairman
The UB Group



Ravi Nedungadi
President and
Chief Financial Officer
The UB Group



Sudhir Goyal
Exec. Dy. President HR



V. Shashikanth
Exec. Vice President
Overseas Business Division



S. Ramanujam
Exec. Vice President
Group Taxation



Ashoke Roy
Exec. Vice President
Group Internal Audit



P. Subramani
Sr. Vice President - Legal,
Company Secretary & CFO



Sunita Budhiraja
Corporate Vice President
Media & Communications

Auditors
M/s Vishnu Ram & Co.
Chartered Accountants, Bangalore - 10